

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6493

BILL NUMBER: HB 1344

NOTE PREPARED: Dec 3, 2002

BILL AMENDED:

SUBJECT: 1977 Pension Fund Membership.

FIRST AUTHOR: Rep. Kromkowski

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 X DEDICATED
 FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill permits the Northern Indiana Commuter Transportation District (NICTD) police officers to become members of the 1977 Police Officers' and Firefighters' Pension and Disability Fund.

Effective Date: July 1, 2003.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures: There are six officers who make-up the NICTD police department. NICTD currently participates in the Public Employees' Retirement Fund (PERF). If NICTD chooses to change from PERF to the 1977 Fund, there will an estimated initial cost of \$695,972 for the purchase of service in the 1977 Fund, with employees contributing an estimated \$94,375, and NICTD contributing an estimated \$601,597. This cost will added to the operating cost of NICTD and will be supported the same as other operating costs through the current sources of revenue.

In addition, the on-going contribution rate for the 1977 Fund will be 21% of payroll. This compares to the PERF contribution rate of 8.75% of payroll. In 2003, the annual NICTD payroll for the six police officers is estimated to be \$348,963. Below is a table which shows the annual cost to NICTD under the 1977 Police Officers' and Firefighters' Pension and Disability Fund. and PERF.

FUND	ESTIMATED ANNUAL SALARIES	% OF PAYROLL	TOTAL
1977 FUND	\$348,963	21.00%	\$73,282
PERF	\$348,963	<u>8.75%</u>	<u>\$30,534</u>
DIFFERENCE		12.25%	\$42,748

Background Information: The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a defined benefit, multi-employer fund covering all full-time police and firefighters who are hired after April 30, 1977. The 1977 Fund is actuarially funded. The amount necessary to cover the normal cost and the amortization of the unfunded accrued liability is appropriated annually by each municipality.

NICTD: In 1977, the General Assembly passed legislation enabling the four counties served by the South Shore Railroad (St. Joseph, LaPorte, Porter, and Lake) to create a transportation district to preserve commuter rail service that was under continual threat of abandonment. The four counties created the Northern Indiana Commuter Transportation District for the purpose of maintaining and improving the South Shore's passenger service. NICTD is supported through fare-box revenue, Public Mass Transportation Fund (PMTF) and Commuter Rail Service Fund (CRSF) distributions, and federal funds.

Effective January 1, 2003, PMTF will receive a distribution of 0.635% from the State Sales and Use Tax, and the CRSF distribution is 0.033%. In 2002, NICTD received approximately \$3.5 M from the PMTF and approximately \$10.2 M in 2002 from the Commuter Rail Service Fund, with approximately \$4.8 M for debt financing.

Explanation of Local Revenues:

State Agencies Affected: The Public Employees' Retirement Fund as administrators of the 1977 Fund.

Local Agencies Affected: NICTD.

Information Sources: Doug Todd of McCready & Keene, Inc., actuaries for the 1977 Fund, 576-1508.

Fiscal Analyst: James Sperlik, 317-232-9866.

DEFINITIONS

Amortization - Paying of an interest-bearing liability by gradual reduction through a series of installments as opposed to paying it off by one lump-sum payment.

Contribution Rate: As to an employee, a factor, such as a percentage of compensation, used in determining the amounts of payments to be made by the employee under a contributory pension plan. As to the employer, a factor, calculated in an actuarial valuation, to be used in determining the employer's annual normal cost contribution under a pension plan. An employer's contribution rate may be either a percentage to be applied to the total compensation paid to covered employees for a particular year, or an amount in dollars to be applied to the total number of covered employees at a particular date.

Defined Benefit- Benefits to be received by employees after retirement that are predetermined by a formula. The employer's contributions under such a program are determined on the basis of the benefits that are thus payable.

Funding- A systematic program under which assets are set aside in amounts and at times approximately coincident with the accruing of benefit rights under a retirement system.

Unfunded Actuarial Liability (sometimes called the unfunded liability) of a retirement system at any time is the excess of its actuarial liability at that time over the value of its cash and investments.